Supreme Court, U.S.
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No. 84-1795

IN THE

Supreme Court of the United States

OCTOBER TERM 1984

TECHNOGRAPH, INC.,

Petitioner,

v.

GENERAL MOTORS CORPORATION,

Respondent.

REPLY BRIEF FOR PETITIONER, TECHNOGRAPH, INC.

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REPLY BRIEF FOR PETITIONER, TECHNOGRAPH, INC.

RE QUESTION NO. 1

GM implicitly acknowledges that the law has now been accurately stated by the Federal Circuit in *Stickle v. Heublein, Inc.*, and that the Third Circuit's denial of any royalty on 1.3 billion infringing non-bumper parts is *erroneous*; only this Court can settle the conflict between the Courts of Appeals.

The Third Circuit refused any award at all for 1.3 billion infringing non-bumper parts despite the express mandate of the statute (35 U.S.C. §284) to award the patent holder "*in no event* less than a reasonable royalty."* That *zero* is "a reasonable royalty" for the large-scale infringement involved in the making of the non-bumper parts is an absurdity not even GM has the courage to defend.

GM argues, instead, that since the Federal Circuit now has exclusive jurisdiction over all patent appeals, "the decision [of the Third Circuit] is the last of its kind by that court. As such, it has no continuing importance." (GMB 12).** GM is wrong. In fact, there are some circumstances in which the regional Courts of Appeals, including the Third Circuit, will be required to decide questions of substantive patent law. *See Atari Inc. v. JS&A Group, Inc.*, 747 F.2d 1422, 1440 n.15 (Fed. Cir. 1984). For example, the regional Courts of Appeals may hear an appeal involving a counterclaim alleging patent infringement pleaded in response to a complaint containing only non-patent claims. *Id.* at 1428. Thus, there exists a continuing conflict between the Courts of Appeals which can only be resolved by this Court.

GM concedes that the Federal Circuit "has already adopted the *Stickle* rule" (716 F.2d 1550, Fed. Cir. 1983) and implicitly acknowledges that *Stickle* accurately sets forth the law (GMB 12). That decision, like the plain language of the statute itself,

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* Emphasis supplied throughout unless otherwise noted.

** References to Technograph's Petition for a Writ of Certiorari are referred to as "P "; references to General Motors' Brief in Opposition to Technograph's Petition for Certiorari are referred to as "GMB ".

requires that the Court award petitioner "*in no event* less than a reasonable royalty" and flatly rejects the assertion that *zero* could ever be a "reasonable royalty." Yet that is the very result reached by the Third Circuit here!

Congress intended that 35 U.S.C. §284 be applied with "uniformity and definiteness." *Graham v. John Deere Co.*, 383 U.S. 1, 18 (1966). Likewise, Congress' "central purpose" in creating the Federal Circuit was "to *reduce* the widespread lack of uniformity and uncertainty of legal doctrine that exist in the administration of patent law." House Report No. 97-312, 97th Cong., 1st Sess. (1981), at 23. The Third Circuit's decision is so inconsistent with the statute that it leaves the intent and meaning of §284 in an absolute state of confusion. The district courts throughout the country will be confused as to whether *Stickle* in the Federal Circuit, enforcing the statute, or *Devex* in the Third Circuit, emasculating it, is the law of the land.

Congress in the 1946 patent statute provided for damages in an amount "not less than a reasonable royalty." In 1952, Congress deliberately changed "not" to "*in no event* less than a reasonable royalty." When Congress specifically provided "in no event," it meant "in no case" or "in no circumstance." Congress intended no exceptions to its explicit mandate, yet the lower courts here created a precedent-setting exception to the unambiguous statute.

Moreover, the result of the Third Circuit's decision is such a miscarriage of justice that this Court, as a matter of public policy, should not permit it to stand. Petitioner has been litigating this case for twenty-eight years against an uncompromising and well-heeled foe. It has proved its patent valid. It has proved that GM infringed its patent continuously over many years and even after the patent was held valid. It has shown substantial cost savings for GM on account of this infringement (P12-14). It has provided the Court with a basis for computing a reasonable royalty (P11-17). Yet it has been awarded *no royalty at all.* That is not reasonable, nor is it permitted by the statute.

To now turn plaintiff away without any royalty whatsoever on non-bumper parts subverts our patent system, discourages

inventors and is directly contrary to the Congressional and Constitutional mandates.* As this Court stated in *Graham, supra,* at 18, "[t]o await litigation is—for all practical purposes—to *debilitate* the patent system." A zero award for the massive infringement here certainly *debilitates* the patent system.

The principles enunciated by this Court in the recent copyright case of *Harper & Row Publishers Inc. v. Nation Enterprises,* 53 U.S.L.W. 4562 (5/21/85) apply with equal force to inventors and the patent laws. The strong "public purposes" set forth therein provide the rationale for granting certiorari here.** The Court stated that Article I, §8 of the Constitution "is intended to motivate the creative activity of . . . inventors by the provision of a special reward" and that the "monopoly created . . . thus rewards the individual . . . in order to benefit the *public.*" In order to carry out the "social and economic rationale of the patent system" (*Graham, supra,* 383 U.S. at 9), this Court should not ignore this case.

The Third Circuit below acknowledged that "the statute *requires* the award of a reasonable royalty . . . " but *inconsistently* held that the award of no royalty does comply with the statute! (231a).*** The Court treated this patent case as one

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* Article 1, Section 8, of the Constitution provides:

> "The Congress shall have power . . . to promote the progress of science . . . by securing for limited times to . . . inventors the exclusive right to their . . . discoveries."

** Our case tracks the holding in *Harper & Row Publishers Inc., supra,* at 4564:

> [W]e believe the [Third] Circuit gave insufficient deference to the scheme established by the [Patent] Act for fostering the original works that provide the seed and substance of this harvest. The rights conferred by [patent] are designed to assure contributors to the store of knowledge a fair return for their labors.

*** The Federal and Sixth Circuits reject that holding of the Third Circuit below. The Federal Circuit held: "If actual damages cannot be ascertained, then a reasonable royalty *must be determined*" (*Hanson,* P 8) and that "no damages" is "contrary to the express statutory provision" of "in no event less than a reasonable royalty for the use made of the invention by the infringer (*Stickle,*

(footnote continued on following page)

requiring proof of some particular fact, namely a "standard of comparison" (see P12-14) and then held that "in the *absence of any* evidence" (clearly erroneous as a matter of law—P11-17), it was unable to derive a reasonable royalty (231a). Since a reasonable royalty is based on a Court-created fiction of a hypothetical negotiation between a willing buyer and a willing seller, who would obviously never agree to a zero royalty, there can never be a failure of proof with respect to a reasonable royalty. As the district court held in *Sel-O-Rak Corp. v. Henry Hanger & Display Fix. Corp.*, 159 F.Supp. 769, 776 (S.D. Fla. 1958), aff'd, 270 F.2d 635 (5th Cir. 1959):

> "A 'reasonable royalty' is a legal fiction resorted to upon a failure of proof as to an established royalty or other general *damages*, and is made the minimum limit of recovery."

The courts below claimed to find no evidence of record to establish *damage*, and thereby confused two very different things under §284:

1. The fact of damage, which the statute eliminates as a necessary condition of recovery; and

2. A reasonable royalty, which the court cannot find as a fact in the record but must construct as a matter of law based on a *hypothetical* negotiation between licensor and licensee.

By this confusion, the lower courts reintroduced into the statute what Congress tried to rid the statute of: *viz* the old requirement that the patentee must prove by evidence some profit to the infringer or loss to himself. See *Aro Mfg. Co. v. Convertible Top Co.*, 377 U.S. 476 (1964).

(footnote continued from preceding page)
P 8). The Sixth Circuit also held that a reasonable royalty is "the *minimum* below which an award of damages may not fall." Therefore, on this record the Federal and the Sixth Circuits would have awarded petitioner a reasonable royalty on the 1.3 billion non-bumper parts found to be an infringement, based upon the legal fiction of a willing buyer/willing seller in a hypothetical license negotiation which is *"employed by the Court as a means of arriving at reasonable compensation."* (*Hanson*, P8-9).

In that context, the Federal Circuit has recently stated that the district court has "*no alternative* but that of measuring damages by what would have been a reasonable royalty," where the patent owner fails "to prove actual damages." *Railroad Dynamics Inc. v. A. Stucki Co.*, 727 F.2d 1506, 1520 (Fed. Cir. 1984).

To the extent GM rests its argument on an alleged failure of proof with respect to a reasonable royalty, two additional points should be noted. First, there was no such failure of proof—the record was more than sufficient to support a determination of a reasonable royalty (P11-17). Second, even if there were such a failure of proof, where, as here, the patent is valid and the infringement enormous, this Court has in the past preferred remand for further evidence to the unacceptable alternative of no compensation whatsoever. See *Dowagiac Manufacturing Co. v. Minnesota Plow Co.*, 235 U.S. 641, 650-51 (1915).

To carry out the expressed Constitutional purpose, the explicit Congressional mandate and the program of President Reagan* to encourage inventors to "invent our future," this Court should take this case and breathe economic vitality into our patent system by reversing the harsh injustice below.

This Court has jurisdiction of the first question as well as the second.

GM acknowledges this Court's jurisdiction over the second question (interest for late payment of postjudgment interest). Its denial of the Court's jurisdiction over the first question (a reasonable royalty on infringing non-bumper parts) is unsound. The final judgment (October 6, 1980) by its own language contemplated continuing jurisdiction for necessary proceedings on the merits post that judgment; e.g., to deter-

*President Reagan in a speech on May 28, 1985, referred to these times as the "age of the entrepreneur." President Reagan declared that his new tax program would encourage:

> "a small but growing circle of heroes—the small-business people, American entrepreneurs; the men and women of faith, intellect and daring who take great risks to invest in and *invent our future.*" (Wall Street Journal, May 29, 1985, p.3)

mine the "postjudgment interest" required by the judgment to be paid "'at the rate allowed by State law' as provided by 28 U.S.C. 1961." (199a, parag. 5(ii)). That very clause in the final judgment resulted in the District Court's subsequent Order, affirmed by the Court of Appeals, which is the basis for the admittedly timely Petition for Certiorari now before the Court. Since the Court clearly has jurisdiction over one aspect of the final judgment, the case is not completely closed* and the Court has power to review any other aspect of that judgment. The question becomes one of "discretion," *Washington v. Fishing Vessel Assn.*, 443 U.S. 658, 673, n. 19 (1979).** This Court should exercise its discretion and remove the lower Courts' cloud on the proper interpretation and application of §284, as well as implementing the important

*Contra GM, the judgment has not been fully satisfied (GMB 8).

** In *Washington*, 443 U.S. at 673 n. 19, the Court stated in pertinent part:

> "Despite our earlier denial of certiorari on the treaty interpretation issue, we decline the Government's invitation to treat the matter as having been finally adjudicated . . . the District Court has retained continuing enforcement jurisdiction over the case . . . Moreover, the reason for our recent grant of certiorari on the question remains because the state courts are . . . on record as interpreting the treaties involved differently from the federal courts. *Accordingly, there is strong reason not to treat it as final as a discretionary matter. Reece v. Georgia*, 350 U.S. 85, 87."

GM cites (pp. 10-11) two earlier cases, neither of which is apposite. In the first case cited (*F.T.C. v. Minn.-Honeywell*, 344 U.S. 206 [1952]), the first decree was merely "re-entered or revised in an *immaterial* way" by the second decree (at 211); hence, a petition filed more than 90 days after the first decree was not timely. In our case, the subsequent Order awarding postjudgment interest at 16% per annum substantively interpreted the judgment. In the second case cited (*Toledo Scale Co. v. Computing Scale Co.*, 261 U.S. 399 [1923]), the final decree, unlike our case, left nothing further to be done by the District Court on the merits. The subsequent enforcement action of the Seventh Circuit was necessitated by the entirely new and separate disruptive action of the defendant, Toledo, in a different court. Plainly, the injunction against Toledo's attempted disruption of the decree could not keep open the *res judicata* effect of the decree entirely closing the case on the merits.

public policy of compensation for patent infringement. After all, petitioner raised the non-bumper royalty issue both in a timely petition from the Third Circuit's December 15, 1981, judgment and in a timely petition from the subsequent order interpreting that judgment. The issue has been kept alive for the Court's discretionary jurisdiction.* At the very least, the current petition is a proper petition for rehearing of the order denying the earlier petition.** In order to insure that petitioner

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* It was GM's refusal of plaintiff's letter demand to pay post-judgment interest at 16% under Delaware law that required plaintiffs to make a motion to the District Court for that same relief. The District Court, unanimously affirmed by the Court of Appeals, fixed interest at 16%. Thus, GM's failure to pay promptly (and at least one Judge in the Court of Appeals thought that refusal was in bad faith) has given the petitioner the opportunity to now seek this review. GM's refusal to be reasonable in prolonging this 28-year litigation is part of its economic *in terrorem* policy.

** Under Rule 51 of this Court, a Petition for Rehearing is "limited to intervening circumstances of substantial or controlling effect or to other substantial grounds not previously presented." The *Stickle* and other decisions cited in the Federal Circuit and the Sixth Circuit Court of Appeals, which were all decided subsequent to this Court's denial of plaintiff's Petition for Certiorari in 1982 (P7-8), demonstrate that this Petition for Rehearing, in the alternative, fully complies with the substantive requirements of Rule 51. The cases decided in the Federal and Sixth Circuits since 1982 are directly opposite the decision below in the Third Circuit on the issue of a reasonable royalty on non-bumper parts.

In *Gondeck v. Pan American World Airways, Inc.*, 382 U.S. 25 (1965), this Court, more than three years after certiorari was denied, granted a motion for leave to file another Petition for Rehearing, granted Rehearing, vacated the Order denying Certiorari, granted Certiorari and reversed the judgment below. In *Gondeck*, there was an intervening decision by a different Court of Appeals involving another employee in the same accident and the original Court of Appeals had expressed doubts about its prior decision. This Court, in *Gondeck*, stated (26-27): "the interest in finality of litigation must yield where the interest of justice would make unfair a strict application of our rules." In a 1983 case, *Florida v. Rodriguez*, 461 U.S. 940 (1983), this Court, two years after initially denying a Petition for Certiorari, granted a Petition for Rehearing, vacated the Order denying the Petition for Certiorari, granted the Petition for Certiorari, vacated the judgment and remanded for further consideration in light of an intervening Supreme Court decision.

is properly proceeding under Rule 51 of this Court, Technograph is simultaneously filing a motion for leave to file a petition for rehearing of its earlier petition (No. 81-1718).*

Under the circumstances, this Court should grant Technograph's Petition and reverse the judgment insofar as denying plaintiff any royalty for the non-bumper infringement. In the alternative, the judgment insofar as denying plaintiff a reasonable royalty on non-bumper parts should be vacated and the case remanded to the Third Circuit with instructions to transfer to the Federal Circuit of the United States Court of Appeals for further consideration in light of *Stickle* and other authorities cited in the Petition (P7-9).

RE QUESTION NO. 2

The problem of late payment of postjudgment interest continues under the 1982 amendment of 28 U.S.C. § 1961.

GM erroneously argues that the "compound interest problem of Petitioner's second question will never occur again" because "Congress has resolved the matter" in the 1982 amendment to 28 U.S.C. 1961, providing that interest on judgments will be compounded *annually* (GMB 15, 13). Under the new § 1961, the same issue here is likely to occur again; for example, if a judgment were entered on January 1, 1985 and the principal amount thereof was paid on June 30, 1985, but the accrued postjudgment interest due on June 30, 1985 was not paid until December 31, 1985, the judgment debtor, like GM here, would have the free use of the postjudgment interest (from July 1, 1985 to December 31, 1985). The majority opinion below actually encourages a losing party to delay payment of postjudgment interest when due, thereby obtaining a windfall. Congress did not intend such an unjust result.

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* GM's request (GMB 6 n.2) that review be granted as to Questions 2 and 3 of its former petition (81-1661), if this Court grants Technograph's petition on Question 1, should be denied as it does not constitute a proper cross-petition under the rules of this Court. Moreover, GM's position on the merits is untenable (see Brief in Opposition to General Motors' Petition, dated April 6, 1982 in No. 81-1661.)

GM attempts to mislead the Court by arguing that as the "amount due . . . for postjudgment interest was settled, GM *promptly* paid" it (GMB 16). The facts are as stated in the petition (17-19), which establish the undisputed dates for the period of GM's free use of the postjudgment interest. Namely, the judgment for a *reasonable royalty on bumpers* was paid by GM on July 7, 1982. At that time, the postjudgment interest was due thereon. Instead, GM had the free use of a substantial sum of postjudgment interest for approximately 14 months. The postjudgment interest on *prejudgment interest* was due when the latter was paid on June 6, 1983. GM enjoyed the free use of that postjudgment interest for approximately three months.*

The majority below refused to award petitioner any money for GM's late payment of postjudgment interest on the ground that it "would amount to compounding of interest" and was thus prohibited by federal law (11a-12a). That is erroneous for two reasons. First, petitioner's claim is not one for "strictly compound interest" (see P 22-23). Second, in any event, federal law does not prohibit the compounding of interest. On June 28, 1985, the Federal Circuit reversed a lower court for its refusal to consider the compounding of interest in calculating *prejudgment* interest. *Dynamics Corp. of America v. U.S.,* F.2d .

* The fact that GM's payment for reasonable royalty was made in July *1982* rebuts GM's quote (GMB 16) from the majority opinion that the "amount of the judgment itself was in dispute until the Supreme Court decision in May, *1983.*" That quote was true *only* as to prejudgment interest. Also, GM does not rebut our argument (P 20-21) that the *1980* judgment fixed the "rate" as the "rate allowed by state law." Moreover, GM fails to rebut our argument that federal law does not require liquidation of amount for interest to accrue thereon (P 19-21). The quote at page 20 of the petition fully answers GM's erroneous statement on the holding in *Dorey v. Dorey,* 609 F.2d 1128 (5th Cir. 1980) (GMB 16). And GM trifles with the Court by its reference to the Master's *1980* Report (GMB 16) which in no way relates to GM's delinquent payment of postjudgment interest due in *1982* (on reasonable royalty) and in *1983* (on prejudgment interest). Likewise, GM's reference to the result in the district courts on the issues of validity and infringement (which were reversed; GMB 16) is irrelevant to the issue of late payment of postjudgment interest.

In addition, Congress specifically provided for the compounding of interest on judgments in the new § 1961. Thus, current federal law provides for the compounding of interest, contra the majority (11a).

The result below is inconsistent with the spirit and rationale of this Court's affirmance of the award of prejudgment interest under 35 U.S.C. § 284 (248a-249a):

> "An award of interest from the time that the royalty payments would have been received merely serves to *make the patent owner whole,* since his damages consist not only of the value of the royalty payments but also of *the foregone use of the money* between the time of infringement and the date of the judgment."

The above statement applies with equal force to the issue of interest for the delinquent payment of postjudgment interest.

CONCLUSION

For the reasons stated in the Petition and herein, the Petition for Writ of Certiorari should be granted.

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